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FISCAL IMPACT STATEMENT

LS 7254

BILL NUMBER: HB 1654

NOTE PREPARED: Jan 12, 2009

BILL AMENDED:

SUBJECT: Anderson Airport Development Zone.

FIRST AUTHOR: Rep. Austin

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that the Anderson airport area may be designated an Airport Development Zone by the Anderson Airport Board.

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will have to revise tax forms, instructions and computer programs to reflect the addition of the Anderson airport area as an Airport Development Zone. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary:* This bill would designate the Anderson airport area as an Airport Development Zone beginning in FY 2010. This designation would provide several tax incentives for the Anderson airport area that are available to Enterprise Zones, including the Employment Tax Deduction, the Employment Expense Credit, the Loan Interest Credit, the Neighborhood Assistance Credit, and the Investment Cost Credit. These incentives may be taken against Adjusted Gross Income (AGI), Financial Institutions, or the Insurance Premiums Tax liabilities, which would serve to reduce revenue to the General Fund by an indeterminable amount.

Background Information - Employee Tax Deduction: This tax deduction is for qualified employees of an Enterprise Zone business. The qualified employee is an individual who is employed by a taxpayer where the employee's principal place of residence is in the Enterprise Zone where the employee is employed. Qualified employees include employees of a financial institution, insurance company, and an international banking facility. Also included are employees of a non profit entity, the state, a political subdivision, or the United States Government. The qualified employee is entitled to a deduction from their AGI equal to the lesser of;

(1) half of the AGI for the taxable year earned as a qualified employee; or (2) \$7,500.

In tax year 2006, 43 individuals claimed about \$295,000 in deductions for qualified Airport Development Zones.

Employment Expense Credit: This credit is for employers that hire qualified employees that live and work half of the time in the Enterprise Zone. The credit is equal to the lesser of 10% multiplied by the qualified increased employment expenditures of the taxpayer for the taxable year; or \$1,500 multiplied by the number of qualified employees employed by the taxpayer during the taxable year. The tax credit can be carried forward for 10 years or carried back for three years.

For tax year 2006, 3 individuals claimed about \$4,243 in credits for qualified Airport Development Zones. In tax year 2005, 52 corporate taxpayers claimed about \$918,000 in Employment Expense Credits for qualified Enterprise Zones.

Loan Interest Credit: The Loan Interest Credit is a nonrefundable tax credit that a taxpayer may claim against the AGI Tax, the Financial Institutions Tax, or the Insurance Premiums Tax. The credit is equal to 5% of the interest a taxpayer receives during the taxable year on qualified loans to businesses or individuals for specified uses in an Enterprise Zone. The amount of the credit equals 5% multiplied by the amount of interest received by the taxpayer during the taxable year from the qualified loans. The credit can be carried forward for 10 years.

In tax year 2005, 28 corporate taxpayers claimed about \$2.3 M in credits for qualified Enterprise Zones. One individual taxpayer claimed \$566 in Loan Interest Credits in tax year 2006 for a qualified Airport Development Zone.

Neighborhood Assistance Credit: The Neighborhood Assistance Credit is for Indiana taxpayers who contributed to individuals, groups or neighborhood organizations, or who engage in activities to upgrade economically disadvantaged areas for economically disadvantaged households. This credit is limited to the lesser of 50% of the amount contributed or invested, state income tax due, or \$25,000 in any taxable year. The credit can be applied against the taxpayer's AGI tax liability or the Financial Institutions Tax. The tax credit may not be refunded, carried back, or carried forward. The total amount of Neighborhood Assistance Credit allowed to all taxpayers in any state fiscal year is limited to \$2.5 M.

In tax year 2006, 3,208 individual taxpayers claimed about \$1.4 M in credits. For tax year 2005, 41 corporate taxpayers claimed about \$43,000 in Neighborhood Assistance Credits.

Investment Cost Credit: Under current statute, the Investment Cost Credit may be claimed against the AGI Tax by taxpayers purchasing an ownership interest (an equity investment) in an Enterprise Zone business. The Investment Cost Credit is equal to a maximum of 30% of the equity investment. The credit percentage allowed (up to 30%) varies depending upon the type of investment, the type of business, and the number of jobs created. The credit is nonrefundable, but a taxpayer may carry over excess credits to subsequent taxable years.

Individual taxpayers did not claim Investment Cost Credits in tax years 2005 and 2006. Data for corporate taxpayers was not available.

Revenue from the AGI Tax on individuals and corporations, the Financial Institutions Tax, and the Insurance

Premiums Tax is distributed to the state General Fund.

Airport Development Zones: IC 8-22-3.5-1 authorizes the following areas to establish Airport Development Zones:

- (1) Marion County;
- (2) City of Gary, IN;
- (3) Vigo County;
- (4) Allen County;
- (5) Vanderburgh County; and
- (6) Delaware County

Explanation of Local Expenditures:

Explanation of Local Revenues: *Anderson Airport Development Zone:* Businesses located in the zone must pay a fee equal to the amount required for enterprise zone businesses, which is currently 1% of the tax incentives claimed. This fee would be deposited in the debt service fund established for the airport development zone.

Madison County: Because the Employee Tax Deduction will serve to decrease taxable income, Madison County may experience a decrease in revenue from the County Option Income Tax (COIT), and the County Economic Development Income Tax (CEDIT).

State Agencies Affected: DOR; IEDC.

Local Agencies Affected: Anderson Airport Development Zone; Madison County.

Information Sources: OFMA Income tax databases.

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